Nova Scotia Municipal Finance Corporation

29th Annual Report
2009

Nova Scotia

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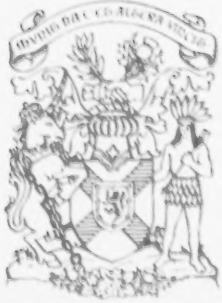

Nova Scotia

Contents

Message from the Chair 2

How the Corporation Functions 3

Directors and Officers 4

Directors' Report 5

Market Conditions 2008–2009 7

Overview of Loan Portfolio 8

Executive Changes 12

Financial Statements

Management's Responsibility for Financial Statements 13

Auditor's Report 13

Balance Sheet 14

Statement of Revenue, Expenditure and Reserve Fund 15

Statement of Cash Flows 15

Notes to Financial Statements 16

Message from the Chair

As Chair of the Nova Scotia Municipal Finance Corporation it is my pleasure to present the Nova Scotia Municipal Finance Corporation's 29th Annual Report for the 2008-09 fiscal year.

The Corporation had another active year for 2008-09 with its annual debenture issuance exceeding $100 million. The Corporation placed three debenture issues for $53.6 million, $56.6 million, a Federation of Canadian Municipalities Green Fund Loan for $661,233, resulting in total long term loan activity of $110.9 million during the fiscal year, issued $750,000 in short term loans, and ended the fiscal year with a net income of $213,694.

The Corporation also continued its leadership role in the area of financial management capacity building. Through its cooperation with the Association of Municipal Administrators of Nova Scotia and the Nova Scotia Department of Service Nova Scotia & Municipal Relations two recommended financial best practices for Nova Scotia municipalities were developed, and thirty best practices were updated for any changes to information and/or web links in 2008-09.

The Corporation focused on the results of the August 2004 client evaluation of its services and programs to ensure that the goals and objectives of the Corporation match those of our clients. The results confirmed that our clients are satisfied with the service we provide for low-cost long-term capital financing. They also supported the Corporation's movement toward financial management capacity building in municipalities in Nova Scotia. To this end, the Corporation has been a partner in developing best practices for financial management (referred to above) and continues to enhance the debt affordability model, which a number of municipalities use for long-term financial planning. Results from the survey have been used as benchmarks for a number of performance measures that have been incorporated in the Corporation's Business Plan.

At this time I would like to thank the Board Members, the staff of the Corporation and the staff of the Provincial Departments of Service Nova Scotia & Municipal Relations, Finance, and Justice for their advice and assistance throughout the year.

Greg Keefe, CMA
Chair

How the Corporation Functions

Authority

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 301 of the Revised Statutes of Nova Scotia, 1989. The legislative authority for the Corporation can be found in the Municipal Finance Corporation Act.

Mission and Purpose

The mission of the Corporation is to provide financing to its clients for approved capital projects at competitive rates, within acceptable risk parameters and to provide advice and assistance to clients regarding financial management.

The Corporation was created with the objective of providing financial assistance for municipalities, municipal enterprises, school boards, and hospitals through a centralized borrowing authority. The way in which the Corporation fulfils its purpose is through the issuance of pooled debenture issues. Pooling of borrowing requirements eliminates the need for individual municipalities to negotiate and administer their own debenture issues.

All municipalities and municipal enterprises must finance their external capital requirements through the Corporation. Exceptions exist for projects that are financed through short-term financing and certain projects for which funds may be borrowed from other governments. Most school board and hospital capital projects are financed directly by the Province of Nova Scotia.

The Corporation partners with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia & Municipal Relations, as well as with other professional associations in the building of financial management capacity in local governments across Nova Scotia.

Administration

The Corporation is governed by a Board of Directors appointed by the Governor in Council. The Municipal Finance Corporation Act requires that 40 per cent of the Board be municipal representatives. There are currently five Directors on the Board: two members are senior public servants, two members are appointed upon the recommendation of the Union of Nova Scotia Municipalities and the fifth member is appointed from the community at large.

The Corporation is self funded. The Minister of Service Nova Scotia & Municipal Relations is required, by legislation, to approve the administrative budget. The Corporation levies fees on loans made to its clients to help offset the administrative expenses of the Corporation. These fees coupled with interest revenue earned by the Corporation on its short-term investments ensure that the Corporation operates in a positive position.

Support staff and resources of the Provincial Departments of Finance and Service Nova Scotia & Municipal Relations have been provided to the Corporation. The Corporation contracts with the Department of Justice for the provision of legal services. The advice and assistance given by all three provincial departments are a valuable contribution to the operation of the Corporation.

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10 South, Maritime Centre
1505 Barrington Street
Halifax, Nova Scotia B3J 3K5

Mailing address:
P.O. Box 850, Station "M",
Halifax, Nova Scotia B3J 2V2

Telephone: (902) 424-4590
Fax: (902) 424-0525
Website: http://www.gov.ns.ca/snsmr/

Directors and Officers *(as at March 31, 2009)*

Directors of the Corporation

Greg Keefe, CMA, Chair
Deputy Minister & Chief Information Officer
Treasury & Policy Board

Keith Hunter
Warden
Municipality of the County of Cumberland

Donald Zwicker
Councillor
Municipality of the District of Lunenburg

Byron Rafuse, CMA
Controller
Nova Scotia Department of Finance

Rick Farmer, CGA
Business Consultant
Sydney, Nova Scotia

Officers of the Corporation

Chair
Greg Keefe, CMA
Deputy Minister & Chief Information Officer
Treasury & Policy Board

Chief Executive Officer & Treasurer
Vacant

Corporate Secretary & Treasurer
Mark A. Peck, MPA
Municipal Advisor
Department of Service Nova Scotia & Municipal Relations

General Counsel
Jennifer Glennie
Department of Justice

Assistant Treasurer
Roy Spence
Director, Liability Management
Department of Finance

Directors' Report

Planning for the Corporation is formulated in accordance with the clients' needs. The Corporation must ensure that it has ready access to capital markets and that it has the financial and administrative capacity to respond to local governments' demand for capital infrastructure financing. In order to ensure that the Corporation is successful in meeting the demand for capital infrastructure financing, the Corporation's Board of Directors approves a Business Plan on an annual basis.

The 2008-09 Business Plan reaffirms our mission statement to provide competitive capital financing for approved projects to municipalities, municipal enterprises, school boards, and hospitals.

Business planning is an evolving process. Outcomes, measures, and indicators are evaluated during the course of the year for effectiveness and responsiveness to the Corporation's longer-term strategic vision. Through the evaluation process, outcomes and measures may be changed to ensure that they are within the Corporation's area of responsibility, the Corporation can influence the outcome and the Corporation's performance can be measured. Data gathered from the 2004 client survey provided the Corporation with information useful in determining benchmark data for performance measurement in our Business Plans.

The strategic goals of the Corporation are supported by the operational priorities. The operational context for the Corporation's activities are strongly influenced by the ability to:

- identify its client needs and respond to them,
- keep abreast of developments in local government capital finance
- maintain financial self-sufficiency

The Annual Report reflects the Corporation's results as measured against the 2008-2009 Business Plan. Along with measuring the longer-term strategic goals of the Corporation, the Annual Report also includes operational results. These operational measures are important in ensuring that the Corporation can meet its priorities and goals.

Business Plan and Accountability Report

The Business Plan features three strategic goals, which are identified below. Outcomes, measures and results are also included.

Strategic Goal 1

To provide capital infrastructure financing to our clients at the lowest available cost, within acceptable risk parameters, to meet their particular debt structure and timing needs.

Outcome:
Competitive financing to our clients in a timely and responsive manner

Measures:
Client satisfaction rates with cost, timing, term and structure of MFC loans

Targets:
A 90% to 100% client satisfaction rate by fiscal 2008-2009. Regular review of loan procedures and maintaining credit enhancement through access to the provincial guarantee

Operational results:

- Issued 46 loans to 39 municipalities, and 2 municipal enterprises.
- Issued $110,860,913 in debentures and on-loaned a similar amount to clients
- Administered $750,000 in short-term financing pending issuance of a debenture
- Administered $709.8 million in outstanding debentures, which included the payment of debenture interest
- Administered $709.8 million in outstanding loans to municipalities and hospitals

Strategic Goal 2

To ensure access to capital markets through prudent management of all financial aspects of the Corporation, which includes credit risk and asset/liability management.

Outcome:
Ensure a sustainable source of funding is available for financing requests from clients and to ensure the operation of the Corporation.

Measures:
Client default rates, matching of assets and liabilities, and adoption of a risk management strategy.

Targets:
No defaults, maintain matched asset and liability amounts, adopt risk management plan.

Operational results:
- Reviewed all municipal requests with Service Nova Scotia & Municipal Relations to ensure that the loans to a municipal unit did not pose a credit risk to the Corporation.
- Managed asset and liabilities of the Corporation to mitigate risk and to ensure that the Corporation did not incur any negative carry costs.
- Managed the administration budget of the Corporation prudently and ended the fiscal year with a net income of $213,694 and a reserve fund balance of $6.15 million.
- A risk management framework adopted.

Strategic Goal 3

To help build financial management knowledge in municipalities and promote municipal capital project planning and financing.

Outcome:
Client awareness of new financial products and features that may help municipal governments; improved MFC products that respond to client needs; and increased financial management knowledge in municipalities.

Measures:
Percentage of municipal units that are satisfied with products being offered by the MFC, and existence of effective programs directed at client needs.

Targets:
A 90% to 100% client satisfaction rate by fiscal 2008-2009. Development of programs that meet client needs.

Operational results:
- Continued a joint committee with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia and Municipal Relations to promote financial management capacity with a commitment of human and financial resources.
- Developed two best practises modelled on the Government Finance Officers Association (GFOA) recommended best practices, these best practices have been adapted for use by local governments in Nova Scotia. Updated thirty existing best practices for any new information and/or web links.
- Encourage the implementation of recommended practices in Nova Scotia municipalities.
- Continued promoted the MFC's debt affordability to municipal units.
- Sponsorship of finance professionals in two municipal units to attend the annual GFOA Conference.
- Continued participation on committees (municipal and provincial).
- Participate in the Association of Municipal Administrators of Nova Scotia's Municipal Finance Officers forum.

Market Conditions 2008-2009

Economic Environment

The Canadian economy began the 2008-2009 fiscal year on very soft footing as the slowdown in the US economy and ongoing severe dislocations in global financial markets continued to act as an anchor on Canadian growth. Still strong domestic demand was largely offset by a substantial decline in net exports, as the Canadian dollar continued to trade above parity through the summer of 2008 on the back of high commodity prices. The strong currency only exacerbated the negative impact on net trade emanating from the sharp decline in US consumer spending, which remained suppressed amidst deteriorating credit conditions and declining US house prices. The near-collapse of the US banking system in the third quarter of 2008 shook the global financial system, causing credit conditions to worsen and overall risk aversion to rise. The ensuing deleveraging process put substantial downward pressure on world equity markets as investors fled to the safety of government debt. Oil prices fell from over US$145/barrel in July to US$34/barrel in December 2008, which helped push the Canadian dollar back below parity (CAD closed at 1.2602 on March 31st, 2009). In response to the accelerating global financial crisis, the central banks of major economies reduced the level of their respective overnight rates, and took several extraordinary measures to foster liquidity and restore credit flows. The Bank of Canada cut its overnight rate target by 300 basis points during the course of the fiscal year, from 3.50% in March 2008 to 0.50% in March 2009.

Canada's economic situation took a turn for the worse towards the end of the third quarter of 2008 when the relative magnitude of domestic job losses began to mimic, and in some instances, surpass those seen in the United States. Domestic demand, which had been the driver of Canada's relative out performance during the initial stages of the global slowdown, began to wane as household net worth continued to decline alongside Canada's terms of trade. The depreciation of the Canadian dollar and the relative strength of Canada's banking system provided an important buffer to the economy during the fourth quarter of 2008, although this was not enough to prevent Canada from entering technical recession.

Interest Rates

Bond yields went for a very bumpy ride lower through the fiscal year. Canadian and US yields initially rose, peaking in mid-June, but as the gravity of the global financial market crisis became more apparent in the second quarter of 2008, the Federal Reserve Board and Bank of Canada embarked on historic interest rate easing campaigns. The Federal Reserve Board maintained the Fed funds rate at 2.00% through the first half of 2008, only to reduce it over three consecutive Federal Open Market Committee meetings in the third quarter to its terminal range of 0-0.25%. The Bank of Canada was just as aggressive on the monetary policy front, lowering the overnight target by 250 basis points in the second half of the fiscal year, from 3.00% in September 2008 to 0.50% at the end of March 2009. The end result was a steeper yield curve in both countries and lower rates. Canadian 10 year yields fell from 3.44% on March 31st, 2008 to 2.78% on March 31st, 2009. Ten year yields in the United States rallied from 3.55% on March 31st, 2008 to 2.65% on March 31st, 2009.

All borrowers, including the Province of Nova Scotia and Nova Scotia Municipal Finance Corporation, experienced dramatic credit spread widening as investors focused on the liquidity provided by Federal Government bonds. However, even with the back-up in credit spreads, the all in cost of borrowing for the Municipal Finance Corporation remained attractive as the rally in underlying Government yields offset the wider credit spreads.

The Corporation issued two pooled debenture issues in 2008-09. The all in costs of funds to our clients are detailed below:

Spring Issue		**Fall Issue**	
settled July 7, 2008		*settled October 24, 2008*	
5 years	4.40%	5 years	4.24%
10 years	4.70%	10 years	4.78%
15 years	4.90%	15 years	5.11%
20 years	5.00%	20 years	5.27%
All in cost	4.84%	All in cost	4.95%

Overview of Loan Portfolio

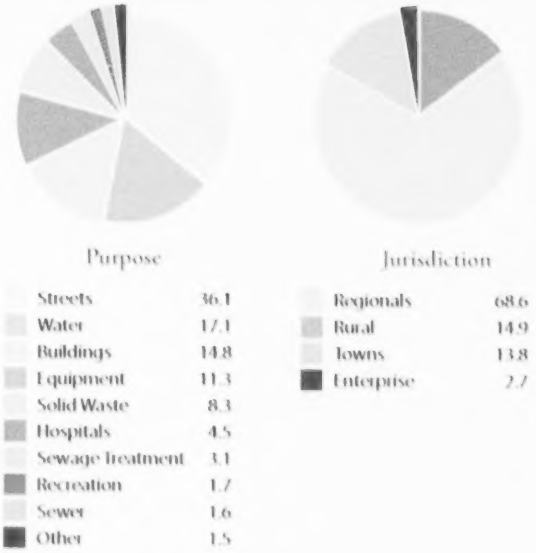
Loans to Municipal Units, School Boards and Hospitals

The Corporation's loan portfolio consists of loans to municipal units and enterprises that are serviced or guaranteed by Nova Scotia municipalities, loans to school boards that are serviced by the Province of Nova Scotia, and loans to hospitals/health authorities guaranteed by the Province. There are no arrears. The Nova Scotia Department of Service Nova Scotia & Municipal Relations performs the credit checks using debt policy guidelines approved by the Minister. The Minister approves all capital borrowing requests by municipal units and municipal enterprises. The Corporation's interest rate risk is minimized by matching the interest rates, term, and features of its debenture issues with those on the loans it makes to its clients.

During the year, long-term loans totalling $110,860,913 were made to 39 municipal units, and 2 municipal enterprises. They were used for the purposes as shown.

Note: The amount of debentures issued during the year approximates the long-term loans made.

Loans Made during the Year



Schedule of New Loans by Purpose *(by Jurisdiction)*

Purpose	Regional	Town	Rural	Municipal Enterprises	Total	Percent
Water	$14,000,000	$722,000	$2,249,581	$2,000,000	$18,971,581	17.1%
Hospitals	0	900,000	4,100,000	0	5,000,000	4.5%
Sewer	249,898	1,050,277	516,669	0	1,816,844	1.6%
Streets	34,848,763	2,465,500	2,760,858	0	40,075,121	36.1%
Buildings	6,457,149	4,633,063	4,324,000	1,000,000	16,414,212	14.8%
Land	0	0	90,000	0	90,000	0.1%
Equipment	10,237,778	1,912,247	370,000	0	12,520,025	11.3%
Recreation	1,003,860	832,133	0	0	1,835,993	1.7%
Solid Waste	7,751,700	125,000	1,331,829	0	9,208,529	8.3%
Sewage Treatment	0	2,593,000	770,000	0	3,363,000	3.1%
General	1,476,608	89,000	0	0	1,565,608	1.4%
Totals	$76,025,756	$15,322,220	$16,512,937	$3,000,000	$110,860,913	
Percent	68.6%	13.8%	14.9%	2.7%		100.0%

Projects Administered

The accumulated loans outstanding at March 31, 2009 amount to $709.8 million, comprising $700.3 million to 71 municipal units and enterprises and $9.5 million to two district health authorities. Effective March 31, 1993, the Province of Nova Scotia assumed all loans related to shareable school and hospital construction. The following table shows the total loans outstanding at the end of each of the last 10 fiscal years, broken down by category.

Ten-Year History of Loans to Municipal Units, School Boards and Hospitals

New Long Term Loans during the Year
Fiscal year ending at March 31st ($ millions)

Year	Municipal	Hospitals	School Boards	Total
2000	84.5	—	2.5	87.0
2001	52.4	—	—	52.4
2002	49.9	—	—	49.9
2003	84.6	11.0	—	95.6
2004	73.1	—	—	73.1
2005	167.7	—	—	167.7
2006	112.0	—	—	112.0
2007	108.3	—	—	108.3
2008	139.5	0.5	—	140.0
2009	110.9	—	—	110.9

Loans Outstanding at Year End
At March 31st ($ millions)

Year	Municipal	Hospitals	School Boards	Total
2000	508.9	35.3	68.3	612.5
2001	463.4	11.8	25.0	500.2
2002	452.2	10.9	18.7	481.8
2003	469.7	11.0	2.2	482.9
2004	481.5	10.8	0.7	493.0
2005	579.5	10.5	0.3	590.3
2006	611.1	10.2	—	621.3
2007	632.4	9.8	—	642.2
2008	679.6	9.9	—	689.5
2009	700.3	9.5	—	709.8

Outstanding Borrowing Program

Funds totaling $110.9 million for loans to municipal units and municipal enterprises, were raised through two issues in the Canadian domestic market. The two issues were placed privately with the Province of Nova Scotia which purchased a $53.6 million issue in July 2008 and a $56.6 million issue in October 2008. Interest rate coupons ranged from 3.10 per cent to 5.48 per cent.

Other Programs

The Corporation offers borrowing programs beyond long term financing via debenture issue as well as financial management capacity building programs to assist municipal units with long term financial planning.

Borrowing Programs

The Board of Directors has long supported a short term borrowing program for its clients. The Corporation's reserve fund is used to provide short-term loans to its clients that have completed their capital project and are awaiting participation in the debenture issue. The terms of the short-term loan are for a period of not greater than one year; interest is charged at a rate of Bank of Montreal's prime lending rate less 1 per cent. The Corporation loaned $750,000 to 1 municipality for a water related project.

Financial Management Capacity Building Programs

Financial Management Best Practices

The NSMFC and the Association of Municipal Administrators of Nova Scotia (AMA) have formed a joint committee with the goal of developing financial management best practices for use by municipalities in Nova Scotia.

The committee strives to be representative of all municipalities in the Province. It includes finance professionals working in towns, regional and rural municipalities, as well as representatives from the Department of Service Nova Scotia and Municipal Relations. The committee uses recommended practices that have been developed by the Government Finance Officers Association (GFOA) and adapts them to fit to Nova Scotia legislation and practices. This year was the committee's sixth year of operation and two best practices were developed in fiscal 2008-2009. In addition, thirty existing best practices were reviewed and updated.

Long Term Financial Planning

The NSMFC developed a Debt Affordability Model to assist municipalities in capital planning and debt management, which several municipalities are currently using. Other municipalities have responded to the MFC stating they are facing human resources and time constraints to fully utilize this tool to its full *potential*.

Schedule of Outstanding Loans

By Jurisdiction	Principle March 31/08	New Loans	Principle Repaid	Principle March 31/09
Regionals				
Halifax	$329,652,506	$51,238,000	($53,292,746)	$327,597,760
Cape Breton	91,019,523	24,787,756	(9,646,997)	106,160,282
Queens	6,469,790	0	(840,227)	5,629,563
Total Regionals	427,141,819	76,025,756	(63,779,970)	439,387,605
District Health Authorities	$9,948,547	$0	($445,737)	$9,502,810
Towns				
Amherst	$4,609,651	$2,942,240	($676,841)	$6,875,050
Annapolis Royal	385,366	450,000	(323,316)	512,050
Antigonish	3,564,010	0	(318,004)	3,246,006
Berwick	1,140,257	156,165	(248,352)	1,048,070
Bridgetown	928,315	263,005	(118,313)	1,073,007
Bridgewater	5,224,411	2,894,000	(769,411)	7,349,000
Canso	766,912	0	(34,561)	732,351
Clark's Harbour	0	300,000	0	300,000
Digby	1,044,405	285,000	(183,621)	1,145,784
Hantsport	1,725,134	180,000	(143,633)	1,761,501
Kentville	7,363,990	599,200	(842,730)	7,120,460
Lockeport	133,800	74,500	(20,100)	188,200
Lunenburg	2,699,500	0	(217,500)	2,482,000
Mahone Bay	431,000	619,000	(32,000)	1,018,000
Middleton	982,726	93,000	(158,432)	917,294
Mulgrave	281,200	250,000	(99,600)	431,600
New Glasgow	5,281,346	504,077	(564,177)	5,221,246
Oxford	1,694,704	321,000	(228,876)	1,786,828
Parrsboro	34,744	0	(8,686)	26,058
Port Hawkesbury HH	8,188,020	0	(552,930)	7,635,090
Shelburne	815,158	0	(98,976)	716,182
Springhill	5,809,871	661,233	(741,545)	5,729,559
Stellarton	15,422,555	0	(725,075)	14,697,480
Stewiacke	1,730,156	350,000	(112,936)	1,967,220
Trenton	231,935	0	(150,935)	81,000
Truro	7,190,500	900,000	(679,250)	7,411,250
Westville	1,424,381	119,200	(115,690)	1,427,891
Windsor	4,070,239	142,600	(277,874)	3,934,965
Wolfville	4,167,488	493,000	(705,982)	3,954,506
Yarmouth	4,658,366	2,500,000	(598,339)	6,560,027
Total Towns	93,094,140	15,322,220	(9,819,685)	98,596,675

Schedule of Outstanding Loans *continued*

By Jurisdiction	Principle March 31/08	New Loans	Principle Repaid	Principle March 31/09
Rurals				
Municipalities				
Annapolis	$4,577,926	$925,000	(690,713)	$4,812,213
Antigonish	2,099,998	1,110,000	(117,167)	3,092,831
Barrington	1,422,796	0	(164,039)	1,258,757
Chester	6,288,731	1,190,000	(1,411,500)	6,067,231
Clare	831,250	2,500,000	(118,750)	3,212,500
Colchester	12,332,453	2,024,000	(1,917,027)	12,439,426
Cumberland	1,222,283	0	(213,052)	1,009,231
Guysborough	2,172,500	0	(131,000)	2,041,500
Hants East	21,970,680	2,867,000	(961,417)	23,876,263
Hants West	101,100	0	(33,700)	67,400
Inverness	2,000,000	0	(200,000)	1,800,000
Kings	9,484,864	1,107,000	(2,495,857)	8,096,008
Lunenburg	16,466,200	0	(921,000)	15,545,200
Pictou	171,116	0	(40,861)	133,255
Richmond	3,519,999	574,687	(326,667)	3,768,019
Shelburne	476,255	0	(83,891)	392,364
Victoria	1,351,500	750,000	(883,500)	1,218,000
Yarmouth	585,000	3,000,000	(67,500)	3,517,500
Villages				
Baddeck	995,138	170,250	(237,743)	927,645
Bible Hill	216,000	0	(36,000)	180,000
Chester	110,000	0	(11,000)	99,000
Kingston	252,500	160,000	(52,500)	360,000
Lawrencetown	0	85,000	0	85,000
New Minas	50,000	0	(25,000)	25,000
St. Peters	413,433	50,000	(87,300)	376,133
Port Williams	510,000	0	(51,000)	459,000
Westport	61,000	0	(10,500)	50,500
Weymouth	175,000	0	(17,500)	157,500
Total Rurals	**89,860,722**	**16,512,937**	**(11,306,183)**	**95,067,476**
Municipal Enterprises				
Bridgewater Public Service Commission	3,600,000	0	(290,000)	3,310,000
Digby Area Recreation	300,000	0	(30,000)	270,000
Digby Housing Corporation	578,000	0	(26,500)	551,500
Glen Haven Manor	888,600	0	(40,500)	848,100
Halifax Regional Water Commission	61,758,000	2,000,000	(4,483,315)	59,274,685
Lunenburg Home for Special Care	822,445	0	(46,090)	776,355
R.K. MacDonald	887,508	1,000,000	(185,340)	1,702,168
Seaview Manor	428,750	0	(85,750)	343,000
Villa Acadienne	238,800	0	(54,400)	184,400
Total Enterprises	**69,502,103**	**3,000,000**	**(5,241,895)**	**67,260,208**
Total Loans	**689,547,331**	**110,860,913**	**(90,593,470)**	**709,814,774**

Municipal Finance Training and Capacity Building Program

The purpose of the Municipal Finance Training and Capacity Building Program is

- to enhance the quality of municipal financial services provided by local government finance professionals in Nova Scotia by exposing them to current issues, best practices, and trends in Canadian and international local government finance
- to encourage the development of a network of municipal finance specialists in Nova Scotia for the purpose of sharing knowledge and best practices

The NSMFC, in partnership with the Department of Service Nova Scotia and Municipal Relations, sponsors two financial professionals working in municipal government in Nova Scotia to attend the annual GFOA Conference. This international conference is dedicated to the development of financial excellence in local government, through the use of best practices and bench-marking.

Dalhousie School of Public Administration Internship Program

The NSMFC, in co-operation with the Dalhousie School of Public Administration, hires a Master of Public Administration student to lead a special project over the course of the summer months that is focussed on building municipality financial capacity. The student conducts research, works closely with municipal and provincial stakeholders, and writes a final project report that will include recommendations and best practices regarding the project.

The 2008 summer intern project was to lead a project focusing on municipal development charges. Development charges are charges imposed by municipalities on new construction developments. Development charges assist in financing capital projects required to meet the increased need for services resulting from growth and development. Development charges have a significant impact on municipal financing capabilities.

Executive Changes

At the end of July 2008, R Mark Gilbert retired as Chief Executive Officer and Treasurer of the Corporation. Mr. Gilbert became involved with the Corporation in 1986 when he served as Corporate Secretary and in 1995 he became an employee of the Corporation when he was appointed Chief Executive Officer and Treasurer. Mr. Gilbert brought many years of experience in municipal finance to the Corporation, and for this we wish to acknowledge his valuable contribution to the Corporation.

Management's Responsibility for Financial Statements

The financial statements of the Nova Scotia Municipal Finance Corporation are the responsibility of management and have been prepared in accordance with PSAB and CICA's accounting principles, which are generally accepted in Canada, applied on a basis consistent with that of the preceding year. The financial information presented elsewhere in the Annual Report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

The financial statements have been examined independently by the external auditors, KPMG LLP, whose responsibility it is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors Report, attached to the financial statements, outlines the scope of their examination and contains their opinion.

The Board of Directors have approved the financial statements and all information in the Annual Report. The external auditors have full and free access to the Board, with and without the presence of management, to discuss auditing, internal control, accounting policy, and financial reporting matters.

Auditors' Report to the Directors

To the Directors of Nova Scotia Municipal Finance Corporation

We have audited the balance sheet of the Nova Scotia Municipal Finance Corporation as at March 31, 2009 and the statement of revenue, expenditure and reserve fund for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position ofthe Corporation as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants
Halifax, Canada
April 24, 2009

Balance Sheet

March 31, 2009, with comparative figures for 2008

	2009	2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,290,680	$ 6,157,896
Accrued interest receivable	11,020,057	10,994,036
HST receivable	206	1,317
Accounts receivable	15,016	—
Principal due within one year on loans to units (note 3)	95,508,362	90,593,470
	112,834,321	107,746,719
Loans to units due beyond one year (note 3)	614,115,611	598,678,931
	$ 726,949,932	$ 706,425,650
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 72,209	$ 120,769
Accrued interest payable	11,017,720	10,961,504
Principal due within one year on debentures (notes 3 & 4)	95,569,267	90,596,807
	106,659,196	101,679,080
Employee obligations (note 5(a))	50,139	95,406
Debentures due beyond one year (note 4)	614,086,421	598,710,682
	720,795,756	700,485,168
Equity:		
Reserve fund	6,154,176	5,940,482
	$ 726,949,932	$ 706,425,650

See accompanying notes to financial statements.

On behalf of the Board:

Kevin Malloy, *Director* Don Zwicker, *Director*

Statement of Revenue, Expenditure and Reserve Fund

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Revenue:		
Interest on loans to units	$ 35,059,329	$ 34,324,492
Interest on short-term investments	150,508	263,791
Recovery of issue costs	349,435	433,596
Reserve fee	443,443	560,162
Sale of services		5,000
	36,002,715	35,587,041
Expenditure:		
Interest on debenture debt and short term loans	35,061,085	34,325,941
Debenture issue expenses	348,664	431,979
Administrative expenses	379,272	500,560
	35,789,021	35,258,480
Excess of revenue over expenditures	213,694	328,561
Reserve fund, beginning of year	5,940,482	5,611,921
Reserve fund, end of year	$ 6,154,176	$ 5,940,482

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	$ 213,694	$ 328,561
Items not involving cash:		
Amortization of fair value adjustment on loans to units	(84,129)	(109,226)
Amortization of fair value adjustment on debenture debt	84,773	109,868
Increase (decrease) in employee obligations	(45,267)	7,770
Change in non-cash operating working capital (note 6(b))	(32,270)	43,047
	136,801	380,020
Financing:		
Issue of debentures	110,860,233	140,041,000
Principal payments on debenture debt	(90,596,807)	(92,662,848)
	20,263,426	47,378,152
Investments:		
Issue of loans to units	(110,860,913)	(140,040,621)
Principal received on loans to units	90,593,470	92,686,851
	(20,267,443)	(47,353,770)
Increase in cash and cash equivalents	132,784	404,402
Cash and cash equivalents, beginning of year	6,157,896	5,753,494
Cash and cash equivalents, end of year	$ 6,290,680	$ 6,157,896
Supplemental cash flow information (note 6)		

See accompanying notes to financial statements.

Year ended March 31, 2009

The Corporation was created by the Municipal Finance Corporation Act which was proclaimed on July 31, 1979. The Corporation began operations on January 1, 1980 and has a March 31 fiscal year end. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, regional school boards, and hospitals through a central borrowing authority. The Corporation is not subject to provincial or federal taxes.

1. Significant accounting policies:

(a) Cash and cash equivalents:
Cash and cash equivalents include cash on hand, balances with banks, short-term deposits with the Province of Nova Scotia with maturities of generally three months or less and any short-term loans to municipal units.

(b) Loans to units:
Loans to units are recorded at amortized cost.

c) Debentures:
Debentures are recorded at amortized cost.

(d) Reserve Fund:
The Reserve Fund was created from accumulated surpluses and interest on funds which had been advanced by the Province of Nova Scotia and interest on other surplus monies. The purpose of the Reserve Fund is to provide a capital base for the Corporation, as well as to provide funds which may be required for administrative purposes and timing differences.

(e) Basis of presentation:
The Corporation recognizes income and expenses on an accrual basis.

(f) Use of estimates:
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Change in accounting policy:
Effective April 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants' Handbook Sections 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation.

Section 3862, Financial Instruments – Disclosures, describes the required disclosures related to the significance of financial instruments on the Corporation's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, Financial Instruments – Presentation, establishes standards for presentation of financial instruments and non-financial derivatives.

As required by the transitional provisions, these new standards have been applied without restatement of prior period amounts.

3. Loans to units:
(a) Loans to municipal units in Nova Scotia are made on the security of their debentures and are due in annual instalments for periods up to a maximum of twenty years. Interest rates on the loans range from 1.0% to 6.875%. The fair value of loans to units as at March 31, 2009 is $737,767,638 (2008 – $718,536,450).

	2009	2008
Loans to units	$709,623,973	$689,272,401
Less current portion	95,508,362	90,593,470
	$614,115,611	$598,678,931

(b) Principal payments receivable from units and debentures payable in each of the next five years are as follows:

	Loans to units	Debentures payable
2010	$ 95,508,362	$ 95,569,267
2011	81,843,844	81,850,065
2012	76,988,529	76,987,410
2013	72,969,191	72,975,397
2014	57,840,649	57,841,122

4. Debentures payable:

The debenture debt outstanding at March 31, 2009 totaling $709,655,688 (2008 – $689,307,489) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia, with the exceptions of Series "AT" and the "FCM" loans which are private placements.

Series	Date issued	Maturity date	Interest rate	Amortized cost of debt outstanding	Fair value
AP*	Jan. 30/98	2010 to 2019	5.750-6.125	$ 28,359,852	$ 31,127,635
AS*	May 17/99	2009	5.375	13,812,339	13,888,683
AT	May 28/99	2009 to 2015	1.000	1,181,250	1,108,863
AU*	Dec. 22/99	2009	6.750	7,055,000	7,335,311
AV*	June 1/00-2	009 to 2010	6.875	6,724,223	7,035,913
AW*	Nov. 9/00	2009 to 2010	6.375	8,369,391	8,912,587
AX*	May 29/01	2009 to 2011	6.125-6.250	12,113,499	12,908,602
AY*	Nov. 7/01	2009 to 2011	5.750-6.000	7,405,492	7,953,522
AZ*	May 15/02	2009 to 2012	5.750-6.125	24,781,455	26,608,157
BA*	Nov. 7/02	2009 to 2017	5.125-6.000	13,631,099	14,581,654
BB*	Jan. 9/03	2009 to 2023	5.913	9,035,255	9,756,833
BC*	May 28/03	2009 to 2018	4.875-5.750	26,661,137	28,276,992
BD*	Oct. 15/03	2009 to 2018	4.375-5.375	12,110,731	12,737,483
BE*	June 10/04	2009 to 2019	4.500-5.750	16,731,012	17,801,734
BF*	Sept. 1/04	2009 to 2024	4.625-5.940	88,000,000	93,117,028
BG*	Nov. 25/04	2009 to 2019	4.300-5.325	18,583,000	19,565,934
BH*	June 1/05	2009 to 2020	3.655-4.880	41,401,000	42,420,056
BI*	Nov. 22/05	2009 to 2020	3.975-4.830	43,832,000	44,616,750
BJ*	June 1/06	2009 to 2021	4.405-5.080	42,597,000	44,343,170
BK*	Oct. 24/06	2009 to 2021	4.095-4.590	47,436,000	47,432,871
FCM-A	Oct. 31/06	2009 to 2016	2.550	664,640	642,291
FCM-B	Mar. 5/07	2010 to 2017	2.620	259,080	249,140
BL*	June 1/07	2009 to 2022	4.380-4.770	57,778,000	58,533,819
BM*	Oct. 17/07	2009 to 2022	4.577-5.210	70,273,000	73,357,306
BN*	Jul. 7/08	2009 to 2023	3.750 – 5.088	53,617,000	54,658,241
FCM-C	Sept. 30/08	2009 to 2018	2.190	661,233	612,429
BP*	Oct. 24/08	2009 to 2023	3.100-5.480	56,582,000	58,217,656
				709,655,688	737,800,660
Less current portion (note 3b)				95,569,267	
				$ 614,086,421	$ 737,800,660 **

* Placed directly with the Province of Nova Scotia. Interest is payable semi-annually, except for Series "AT", which is payable annually.

** The fair value of the debentures payable on March 31, 2008 was $718,574,677.

5. Employee obligations:

(a) Public Service Awards:

As at March 31, 2009, the Corporation has recorded a liability in the amount of $50,139 (2008 – $95,406) in respect of the provincial public service award for the employees of the Corporation.

(b) Employee future benefits/pension:

Permanent employees participate in the Nova Scotia Public Service Superannuation Fund (the "Plan"), a contributory defined benefit pension plan administrated by the Province of Nova Scotia, which provides pension benefits based on length of service and earnings. Contributions to the Plan are required by both the employees and the employer. Total employer contributions for 2009 were $13,659 (2008 – $22,296) and are recognized as an expense in the year. The Corporation is not responsible for any under-funded liability, nor does the Corporation have any access to any surplus that may arise in this Plan.

6. Supplemental cash flow information:

(a) Cash and cash equivalents include:

	2009	2008
Cash	$ 6,290,680	$ 1,797,096
Short-term investments	—	4,360,800
	$ 6,290,680	$ 6,157,896

(b) Change in non-cash working capital:

	2009	2008
Accrued interest receivable	$ (26,021)	$ (972,204)
Other receivables	(13,905)	67
Accounts payable	(48,560)	88,614
Accrued interest payable	56,216	969,070
Due to municipal units	—	(42,500)
	$ (32,270)	$ 43,047

(c) Supplemental cash flow information

	2009	2008
Interest paid	$ 34,920,095	$ 33,247,003
Interest received	$ 34,918,904	$ 33,506,853

7. Financial instruments:

(a) Fair value

The fair values of cash and cash equivalents, accrued interest receivable, other receivables, accounts payable, accrued interest payable and due to municipal units are assumed to approximate their carrying amounts because of their short-term to maturity. The fair value of the loans to units (note 3) and debentures payable (note 4) has been calculated using future cash flows (principal and interest) at current market rates available to the Corporation for the same or similar instruments.

The fair value of the loans to units and the debentures payable are determined using Canadian bond market conventions.

The yield to maturity curve by month for the Corporation was estimated using the following assumptions:

a) The risk-free interest rate for each specified maturity term equal to the relevant benchmark Canada yield by term (Canada yield).

b) The Nova Scotia credit spread relative to the Canada yield for each specified maturity term to reflect the Nova Scotia cost of funds as provided by CIBC World Markets.

c) The Corporation's credit spread relative to the Nova Scotia credit spread for each specified maturity term based on the municipal credit spreads provided by CIBC World Markets and RBC Capital Markets.

The Corporation's yield to maturity on an annual basis for specified maturity terms is determined as the sum of the Canada yield, the Nova Scotia credit spread and the Corporation's credit spread. These inputs were used to determine the Corporation's yield to maturity curve by month.

(b) Interest rate risk

The Corporation's mandated rate of interest charged on loans to units is directly matched to its cost of borrowing, thereby mitigating the risk of equity erosion.

(c) Credit risk

Due to existing statutory provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required. It is management's opinion that the Corporation is not exposed to significant interest or credit risks arising from financial instruments.

8. Trust funds under administration:

The Corporation has no Trust Funds under its administration for the year ended March 31, 2009.